

Message Text

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ACTION EUR-12

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PASS TREASURY AND FRB

VIENNA FOR ELLIS

EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: CREDIT SUISSE LOSSES AFFECT FINANCIAL MARKETS

REF: BERN 1640

1. SUMMARY: SWISS NATIONAL BANK (SNB) ANNOUNCED
APRIL 26 THAT IT HAD OFFERED, WITH SWISS BANK CORP AND
UNION BANK OF SWITZERLAND, SF 3 BILLION STANDBY
CREDIT TO CREDIT SUISSE (SWISS KREDITANSTALT-SKA)
TO MEET LIQUIDITY PROBLEMS THAT MIGHT ARISE
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FOLLOWING DISCLOSURE OF ILLEGAL ACTIVITIES BY
SKA CHIASSO BRANCH OFFICERS IN GIVING GUARANTEE
FOR FOREIGN DEPOSITS INVESTED IN LIECHTENSTEIN.
SKA ANNOUNCED IT HAD NOT REQUESTED STANDBY CREDIT
AND THAT ITS RESERVES EXCEED MAXIMUM EXPECTED LOSSES
BY CHIASSO BRANCH. SNB COMMUNIQUE, AIMED AT CALMING
PUBLIC CONCERN, IN FACT PROMPTED NERVOUS TRADING

ON STOCK EXCHANGE AND FOREIGN EXCHANGE MARKET. ONLY OTHER OFFICIAL REACTION HAS BEEN THAT OF FEDERAL COUNCILOR CHEVALLAZ (FINANCE MINISTER) WHO TOLD PRESS THAT QTE SNB AND BANKING COMMISSION ARE FOLLOWING SITUATION CLOSELY UNQTE.

2. SKA CHIASSO SCANDAL TOOK ON NEW PROPORTIONS APRIL 26 WITH ANNOUNCEMENT OF ARREST APRIL 25 OF BRANCH MANAGER AND TWO SENIOR OFFICERS ON CRIMINAL CHARGES OF ISSUING FALSE CERTIFICATES AND FRAUDULENT MANAGEMENT. PUBLIC PROSECUTOR'S OFFICE DISCLOSED THAT OVER SEVERAL YEARS SOME ONE THOUSAND ITALIAN INVESTORS HAD PLACED SF 2.2 BILLION WITH TEXON-FINANZANSTALT, OIECHTENSTEIN, THROUGH SKA CHIASSO WHICH GUARANTEED SF 250 MILLION. GUARANTEE WAS NOT REGISTERED AND DEPOSITS WERE NOT DISCLOSED UNTIL RECENT SKA INTERNAL AUDIT. SKA COMMUNIQUE APRIL 25 SAID TEXON USED FUNDS TO BUY SHARES IN THREE ITALIAN COMPANIES (WINEFOOD SPA, ALBARELLA-MARE RESORTS AND AMPAGLAS PLASTICS) WHICH REPORTEDLY HAVE CHIASSO CONNECTIONS. PRESS REPORTED TEXON WAS SERIOUSLY UNDER-CAPITALIZED AND ITS LIQUIDITY PROBLEMS LED TO SKA DISCOVERY OF THESE ACTS BY ITS CHIASSO OFFICERS.

3. SKA COMMUNIQUE STATED THAT EXACT SUMS INVOLVED SO FAR CANNOT BE DETERMINED. SKA HAS SEIZED TEXON ASSETS (REPORTEDLY SF 60 TO 80 MILLION) HELD BY CHIASSO BRANCH AND ANNOUNCED THAT BONAFIDE LIMITED OFFICIAL USE

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DEPOSITORS IN TEXON AFFAIR MAY CLAIM UP TO 75 PERCENT OF THEIR MONEY UNDER SWISS BANKING RULES. AFTER SKA DROPPED EARLIER REFERENCE TO SF 250 MILLION LOSSES (REFTEL) BANK CIRCLES SPECULATED THAT LOSSES MIGHT REACH SF 700 TO SF 900 MILLION. SKA HAS STRESSED THAT ITS FIRST QUARTER 1977 EARNINGS ROSE 10 PERCENT (ADJUSTED FOR CHIASSO LOSSES), ITS POLICIES WILL NOT CHANGE AND THA RESERVES SURPASS MAXIMUM POSSIBLE LOSSES.

4. NEUE ZUERCHER ZEITUNG NOTED THAT SKA DID NOT BRING CHARGES AGAINST ITS CHIASSO OFFICERS AND HAS ONLY HINTED AT NATURE OF THEIR ACTIVITY. SKA COMMUNIQUE SAID ONLY THAT CHIASSO BRANCH GAVE UNREGISTERED BANK GUARANTEE FOR DISCRETIONARY TRUST ACCOUNT MONEY. THEREFORE, NZZ SPECULATED THAT BANKING LAWS RE BALANCE SHEET ACCOUNTING PRACTICES WERE VIOLATED AND FRAUDULENT TAX STATEMENTS MAY HAVE BEEN FILED. NZZ NOTED

FEDERAL DECREES AND ORDINANCES RE MEASURES TO RESTRICT FOREIGN MONEY INFLUX IMPOSED NEGATIVE INTEREST RATE ON CERTAIN LEVELS OF SWISS FRANC DEPOSITS BY FOREIGNERS WHILE PROHIBITING PAYMENT OF INTERESTS. CHIASSO BRANCH REPORTEDLY PAID AS MUCH AS 8 PERCENT INTERESTE WHILE CURRENT SWISS RATES ARE MUCH LOWER. ALSO, CEILING ON BANKS HOLDING FOREIGN SWISS FRANC DEPOSITS WAS IN EFFECT FROM OCT 31, 1974. THESE RULES WOULD ALSO APPLY TO LIECHTENSTEIN.

5. SWISS NATIONAL BANK TELEXED COMMUNIQUE TO NEWSPAPERS SHORTLY AFTER MIDNIGHT APRIL 26 THAT SNB HAD INVITED LARGEST THREE BANKS TO DISCUSS CHIASSO AFFAIR APRIL 25. DURING MEETING SNB AND TWO OTHER BIG BANKS QTE SPONTANEOUSLY UNQTE OFFERED SKA SF 3 BILLION STANDBY CREDIT IN EVENT OF LIQUIDITY LIMITED OFFICIAL USE

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PROBLEM. SKA ANNOUNCED IT HAD NOT REQUESTED STANDBY CREDITS AND THAT ITS RESERVES ARE AMPLE TO COVER LOSSES.

6. THOUGH ANNOUNCEMENT OF STANDBY CREDIT OFFER WAS AIMED AT CALMING CONCERN IN INTERNATIONAL BANKING CIRCLES AND REASSURE PUBLIC, EFFECT WAS TO CAUSE NERVOUS REACTION ON FINANCIAL MARKETS. DOLLAR RAE AGAINST SWISS FRANC WHICH CLOSED SF 2.51 MONDAY FELL TO SF 2.53 TUESDAY. OTHER RATES ON ZURICH MARKET REMAINED STEADY, HOWEVER, AND GOLD PRICE SLIPPED TO 146.76. STRONGEST REACTION WAS ON STOCK EXCHANGE WHERE SKA BEARER SHARES FELL 25 PERCENT IN TWO DAYS, THOUGH THERE WAS SLIGHT RECOVERY BY CLOSING TUESDAY. SHARES OF OTHER BIG SWISS BANKS ALSO FELL SLIGHTLY. GENERAL REACTION WAS THAT STANDBY CREDIT ANNOUNCEMENT WAS A MISTAKE, THOUGH NZZ REPORTED IT MAY HAVE HAD PSYCHOLOGICAL EFFECT FOR PUBLIC AND SUSPECTED SKA WAS NOT DISPLEASED BECAUSE FEW ACCOUNTS WERE TRANSFERRED.

7. FEDERAL COUNCILOR CHEVALLAZ TOLD PRESS APRIL 26 THAT CHIASSO AFFAIR WAS BEING EXAMINED BY SNB AND OTHER BIG BANKS TO SEE IF SKA REQUIRED HELP AND THAT BANKING COMMISSION WAS EXAMINING WAYS TO STRENGTHEN BANKING RULES. HE NOTED THAT EFFECT OF SCANDAL COULD BE SERIOUS FOR SWISS ECONOMY BECAUSE OF POTENTIAL EFFECT ON REPUTATION AND CREDIT OF SWISS FINANCIAL INTITUTIONS.

8. EMBASSY COMMENT: THIS MAY TURN OUT TO BE
THE LARGEST LOSS SUSTAINED BY A MAJOR SWISS
BANK IN RECENT HISTORY. ON THE BASIS OF THE
FACTS AVAILABLE UP TO NOW WE DO NOT EXPECT IT TO
HAVE A LASTING EFFECT ON THE REPUTATION OF CREDIT
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SUISSE OR THE SWISS BANKING COMMUNITY. IT COULD,
HOWEVER, LEAD TO MORE GOVT CONTROLS ON BANKING
IN SWITZERLAND, AND MAY RAISE DOUBTS AMONG THOSE
WHO HAVE BEEN RELUCTANT TO ALLOW GOVT
AUTHORITIES DIRECT ACCESS TO BANK RECORDS.
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